

## Message Text

PAGE 01 STATE 181848  
ORIGIN ARA-14

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APPROVED BY ARA:AMBASSADOR STEDMAN  
-----063881 031556Z /42

O 031439Z AUG 77 ZFF4  
FM SECSTATE WASHDC  
TO AMEMBASSY BOGOTA NIACT IMMEDIATE  
AMEMBASSY KINGSTON NIACT IMMEDIATE  
AMEMBASSY CARACAS NIACT IMMEDIATE  
AMEMBASSY SAN JOSE NIACT IMMEDIATE  
AMEMBASSY MEXICO NIACT IMMEDIATE  
INFO AMEMBASSY PANAMA IMMEDIATE

S E C R E T STATE 181848

STADIS////////////////////////////////

E.O. 11652: GDS

TAGS: PBOR, PN

SUBJECT: PANAMA CANAL NEGOTIATIONS

REF: (A) STATE 178801; (B) CARACAS 7550; (C) MEXICO 12752

1. FOLLOWING INFORMATION IS PROVIDED ADDRESSEE POSTS IN  
RESPONSE TO REQUEST FOR ADDED DETAILS BEYOND WHAT WAS  
CONTAINED IN REFTEL A.

2. JULY 29 MEETING WITH PRESIDENT. THE PRESIDENT'S  
MEETING JULY 29 WITH PANAMANIAN NEGOTIATORS, WHICH WAS  
ATTENDED BY THE VICE PRESIDENT, THE SECRETARY, THE ADVISER  
SECRET

PAGE 02 STATE 181848

FOR NATIONAL SECURITY AFFAIRS AND OUR CO-NEGOTIATORS,  
RECEIVED CONSIDERABLE MEDIA COVERAGE IN BOTH PANAMA AND  
THE UNITED STATES. IT WAS DESIGNED TO PROJECT PRESIDENTIAL  
SUPPORT FOR AN EARLY CONCLUSION TO THE NEGOTIATIONS AND HIS  
SATISFACTION WITH THE PROGRESS MADE, WHILE AT THE SAME  
TIME TELLING THE PANAMANIAN IN CLEAR TERMS THAT WE COULD  
MAKE NO FURTHER SIGNIFICANT CONCESSIONS. PRESIDENT ASKED  
PANAMANIAN REPRESENTATIVES TO DELIVER LETTER TO GENERAL  
TORRIJOS. UPON THEIR RETURN TO PANAMA LATER THAT DAY,  
PANAMANIAN NEGOTIATORS HELD NEWS CONFERENCE AT WHICH THEY  
RELEASED TEXT OF LETTER (CARRIED IN NEW YORK TIMES, SEE

USIS WIRELESS AUGUST 2).

3. NEGOTIATING SCHEDULE. MEETINGS WILL BE HELD IN WASHINGTON THIS WEEK ON LABOR, LANDS AND WATERS AND ECONOMIC ARRANGEMENTS. DURING THESE SESSIONS WE PLAN TO LAY GROUNDWORK FOR DISCUSSIONS AT THE NEGOTIATOR LEVEL AUGUST 8, 9, AND 10 WHICH COULD SEE AGREEMENT IN PRINCIPLE, IF THIS WEEK'S TALKS GO SATISFACTORILY. TREATY DRAFTING WOULD THEN FOLLOW. (DURING JULY NEGOTIATIONS, US SIDE PRESENTED MOST ELEMENTS OF US ECONOMIC PACKAGE; GAVE US REACTION TO MOST RECENT PANAMANIAN POSITIONS ON LANDS AND WATERS AND LABOR MATTERS; THEREFORE, SESSIONS THIS WEEK SHOULD CONTAIN FEW SURPRISES FOR PANAMA.)

4. FOLLOWING SPREAD SHEET DESCRIBES LATEST POSITIONS OF TWO SIDES AT OUTSET OF THIS WEEK'S TALKS ON MOST SIGNIFICANT OUTSTANDING ISSUES:

--- PANAMA POSITION UNITED STATES POSITION

1. ANNUITY DOLS 150 MILLION 30 CENTS PER PANAMA

--- (ORIGINALLY, CANAL TON (ABOUT DOLS  
SECRET

PAGE 03 STATE 181848

--- DOLS 300 MIL) 50 MILLION ON AVERAGE  
--- DURING TREATY)

2. LUMP SUM DOLS 460 MILLION LOANS AND LOAN GUAR-  
PYMENT (ORIGINALLY, ANTEES UP TO DOLS 300

--- DOLS 1 BIL) MILLION PLUS USE OF AT  
--- LEAST PART OF PRESENT  
--- CANAL COMPANY DOLS 20  
--- MILLION ANNUAL INTER-  
--- EST PAYMENT TO U.S.  
--- TREASURY ON USG  
--- INVESTMENT IN CANAL  
--- EITHER (A) TO SECURE  
--- LOANS OF UP TO DOLS  
--- 200 MILLION FROM  
--- FEDERAL FINANCE BANK,  
--- OR (B) AS DOLS 10-  
--- 20 MILLION ADDITION TO  
--- ANNUITY.

3. SECURITY FMS CREDITS ESTI- DOLS 50 MILLION OVER  
ASSISTANCE MATED AT BETWEEN 10 YEAR PERIOD MOSTLY

--- DOLS 88-113 IN FMS CREDITS HANDLED  
--- MILLION FOR OUTSIDE TREATY AND  
--- EQUIPMENT RELATED TO PANAMA'S

4. PUBLIC AND DOLS 18 MILLION AGREE IN PRINCIPLE TO  
GOVERNMENTAL REIMBURSE PANAMA FOR

SERVICES TO COSTS INCURRED IN  
CANAL CANAL OPERATING AREA.  
ADMINISTRA- ESTIMATED BY US AT DOLS  
TION 12 MILLION ANNUALLY,  
--- BUT NOT YET OFFERED.

5. INCOME TAX U.S. CITIZEN EM- CANNOT AGREE TO TAXA-  
SECRET

PAGE 04 STATE 181848

--- PLOYEES OF CANAL TION OF U.S. CITIZEN  
--- ADMINISTRATION TO EMPLOYEES, WHICH WOULD  
--- PAY INCOME TAX. ESTABLISH UNFORTUNATE  
--- (VALUE TO PAN- PRECEDENT.  
--- AMA: DOLS 3 MIL-  
--- LION AT START.)

6. LANDS AND IN JULY TABLED HAVE AGREED TO RETURN  
WATERS NEW DEMANDS FOR APPROXIMATELY 65 PER-  
--- RODMAN NAVAL CENT OF PRESENT CANAL  
--- STATION, HOUSING ZONE TO PANAMA, IN-  
--- AREAS, COCO SOLO CLUDING AREAS NEAR  
--- HIGH SCHOOL, PART URBAN CENTERS (COLON  
--- OF ALBROOK AF AND PANAMA CITY). HAVE  
--- BASE, FT. DAVIS;; MADE SOME ADJUSTMENTS  
--- TELFERS ISLAND, IN RESPONSE TO NEW PAN-  
--- AND ENLARGED ROLE AMANIAN DEMANDS BUT HAVE  
--- FOR PORT AUTHORITY TOLD PANAMA THAT WE ARE  
--- (AND LESSENER US UNABLE TO MAKE FURTHER  
--- ROLE) OVER MARINE CONCESSIONS. SEE  
--- OPERATIONS AT PARAGRAPHS 8-11 BELOW  
--- POR,S. FOR FULLER DISCUSSION.

7. MILITARY NEW DEMANDS FOR CATEGORY DESIGNED TO  
AREAS OF PANAMANIAN CON- PERMIT PANAMA SOME USE  
COORDINA- TROL OVER MILI- OF TRAINING AREAS BUT  
---NATION TARY TRAINING WITH U.S. IN CONTROL.  
--- AREAS. PANAMANIAN CHANGE TO  
--- PREVIOUSLY AGREED PO-  
--- SITION IS UNACCEPTABLE.

8. EXPANSION PANAMANIAN POSI- 15 YEAR OPTION TO  
--- TION UNCLEAR; BUILD THIRD LANE OF  
SECRET

PAGE 05 STATE 181848

--- IS NOW TALKING LOCKS OR SEA-LEVEL CANAL  
--- ABOUT A PRICE SUBJECT TO SUBSEQUENT  
--- TAG FOR OPTION. U.S.-PANAMA AGREEMENT;  
--- 1ST REFUSAL THEREAFTER.

9. BENEFITS EARLY OPTIONAL SINCE US HAS RESPONS-  
FOR PANAMAN- RETIREMENT; BILITY FOR CANAL OPER-

IAN EMPLOYEES MANDATORY TRANS- ATION DURING TREATY'S

--- FER OF PAST LIFE, DETAILED LABOR  
--- SOCIAL SECURITY MATTERS NOT APPROPRIATE  
--- CONTRIBUTIONS TO FOR TREATY NEGOTI-  
  
--- SYSTEM; RETRO- ACCEPTS PRINCIPLE OF  
--- ACTIVE RETIREMENT EARLY RETIREMENT,  
--- PAYMENTS FOR VOLUNTARY TRANSFER OF  
  
--- FORMER NON- PAST SOCIAL SECURITY CON-  
--- APPROPRIATED TRIBUTIONS, BUT NO RETRO-  
--- FUND EMPLOYEES, ACTIVE RETIREMENT PLAN  
--- 33 PERCENT WAGE FOR NON-APPROPRIATED  
--- INCREASE FOR PAN- FUND EMPLOYEES, OR  
--- AMANIAN EMPLOYEES.WAGE INCREASES.

5. POSTS SHOULD KEEP IN MIND FACT THAT MANY OF ABOVE  
ISSUES ARE EXTREMELY DETAILED AND THAT SPREAD SHEET FORMAT  
DOES NOT PERMIT IDENTIFICATION OF EACH DIFFERENCE BETWEEN  
THE TWO SIDES.

6. US PRESENTED TO PANAMA IN JULY DRAFT TREATY AND DRAFT  
IMPLEMENTING AGREEMENT (CONTAINING ORGANIZATIONAL DETAILS  
OF PANAMA CANAL ADMINISTRATION, THE ENTITY WHICH WILL  
REPLACE THE PANAMA CANAL COMPANY.) PANAMA HAS INDICATED  
SOME OBJECTIONS TO THIS DRAFT (PARTICULARLY PROVISIONS  
FOR IMMUNITY OF USG AGENCIES FROM PANAMANIAN LAW, PROPERTY  
OWNERSHIP, STATUS OF PRIVATE BUSINESS, TERMINATION FORMULA,  
CRIMINAL JURISDICTION, ROLE OF PORT AUTHORITY ETC.)

SECRET

PAGE 06 STATE 181848

7. IN ANY PRESENTATION TO HOST GOVERNMENTS, EMBASSY OFFI-  
CERS SHOULD STRESS MAJOR CONCESSIONS MADE BY US:

-- JURISDICTION WILL PASS TO PANAMA.

-- CANALZONE WILL CEASE ,O EXIST.

-- 65 PERCENT OF PRESENT CANAL ZONE LANDS AND WATERS WILL  
BE AVAILABLE FOR USE BY PANAMA.

-- PANAMA WILL NAME (FOR APPOINTMENT BY US) FOUR OF NINE  
DIRECTORS OF NEW CANAL OPERATING AGENCY.

-- ONE OF PANAMANIAN DIRECTORS WILL BE DEPUTY ADMINISTRA-  
TOR UNTIL 1990 AND ADMINISTRATOR OF CANAL THEREAFTER.

-- US HAS AGREED TO REDUCE NUMBER OF CURRENT US CITIZEN  
EMPLOYEES OF NEW PANAMA CANAL ADMINISTRATION BY 20 PERCENT  
WITHIN FIVE YEARS AFTER TREATY ENTERS INTO FORCE.

-- RECRUITMENT OF NEW US EMPLOYEES WILL BE EXTREMELY LIMITED. PANAMANIAN WILL RECEIVE PREFERENCE FOR CANAL JOBS.

-- ECONOMIC BENEFITS TO PANAMA WILL INCREASE SHARPLY OVER DOLS 2.3 MILLION WE NOW PAY PANAMA.

-- US HAS ACCEPTED PANAMA'S DEMAND THAT TREATY TERMINATE DECEMBER 31, 1999.

-- US HAS ACCEPTED ALMOST FULLY PANAMA'S LONGSTANDING POSITION ON EXPANSION.

SECRET

PAGE 07 STATE 181848

8. ON LANDS AND WATERS, IT SHOULD BE EMPHASIZED THAT THE UNITED STATES HAS MADE MAJOR CONCESSIONS SINCE DETAILED DISCUSSIONS OF THIS SUBJECT STARTED IN JANUARY 1975. WE HAVE EXAMINED THIS PROBLEM NOT FROM THE POINT OF VIEW OF WHAT PORTIONS OF THE ZONE THE UNITED STATES COULD PERMIT PANAMA TO USE, BUT RATHER FROM THE POINT OF VIEW OF WHAT AREAS ARE REQUIRED FOR THE OPERATION AND DEFENSE OF THE CANAL. ON THE OTHER HAND, PANAMA HAS APPROACHED PROBLEM PRIMARILY FROM ECONOMIC DEVELOPMENT VIEWPOINT. AFTER PROLONGED DISCUSSIONS, UNITED STATES MADE A PRESENTATION TO PANAMA IN OCTOBER 1976 IN WHICH WE PROPOSED ESTABLISHMENT OF

-- DEFENSE SITES, CONSISTING OF OUR MAJOR DEFENSE FACILITIES;

-- A CANAL OPERATING AREA CONTAINING THE CANAL ITSELF, THE LOCKS, CANAL BANKS (WHICH TEND TO BE UNSTABLE AND REQUIRE CONSTANT MONITORING); AND

-- MILITARY AREAS OF COORDINATION, CONSISTING PRIMARILY OF MILITARY TRAINING AREAS. (PURPOSE OF THESE AREAS IS TO PROVIDE AREAS IN WHICH US FORCES AND PANAMANIAN NATIONAL GUARD CAN CONDUCT TRAINING EXERCISES.)

OUR OCTOBER 1976 PROPOSAL PROVIDED THAT SOME OF THESE AREAS WOULD REVERT TO PANAMA DURING THE LIFE OF THE TREATY.

9. PANAMANIAN REACTION TO THIS PROPOSAL WAS TO ASK FOR ADDITIONAL LANDS AND FACILITIES.

10. IN MAY 1977 THE UNITED STATES MADE A NUMBER OF FURTHER MAJOR CONCESSIONS IN THE LANDS AND WATERS PACKAGE INCLUDING CONTROL BY PANAMA OF :

-- MAJOR PORT SHORESIDE ACTIVITIES ON BOTH ATLANTIC AND  
SECRET

PAGE 08 STATE 181848

PACIFIC.

-- THE PANAMA RAILROAD.

-- ON THE PACIFIC SIDE, ANCON HILL, A PROMINENT HILL OUTSIDE PANAMA CITY TO WHICH PANAMA ATTACHES POLITICAL IMPORTANCE, AND THE ALBROOK EAST AREA, LESS SPECIFIC MILITARY FACILITIES.

-- ON THE ATLANTIC SIDE, AN AREA SOUTH OF COCO SOLO (WITHIN FIVE YEARS) AND CRISTOBAL TOWNSITE, LESS CANAL FACILITIES LOCATED THERE.

10. IN ADDITION THE UNITED STATES AGREED (A) TO REMOVE ANCHORAGES FROM THE CANAL OPERATING AREA AND TO DEFINE USE RIGHTS FOR THE PANAMA CANAL ADMINISTRATION IN THOSE AREAS; (B) TO CHANGE A PORTION OF FORT SHERMAN ON THE PACIFIC SIDE TO AN AREA OF MILITARY COORDINATION; (C) TO ESTABLISH CIVILIAN AREAS OF COORDINATION TO COVER HOUSING AREAS OCCUPIED BY U.S. CITIZEN EMPLOYEES OF THE PANAMA CANAL ADMINISTRATION AND (D) TO ESTABLISH A JOINT PORT AUTHORITY TO COORDINATE PORT ACTIVITIES AND THE PANAMA RAILROAD.

11. THESE CONCESSIONS REPRESENTED A SIGNIFICANT DEPARTURE FROM THE PREVIOUS U.S. POSITIONS AND GAVE PANAMA CONTROL OF AREAS AND FACILITIES WHICH IT COULD USE TO FURTHER THE ECONOMIC DEVELOPMENT OF THE COUNTRY. WE UNDERSTOOD AT THE TIME THAT WITH THESE CONCESSIONS WE HAD ACHIEVED BASIC AGREEMENT ON LANDS AND WATERS. BUT AGAIN, PANAMA STALLED DURING TECHNICAL TALKS IN JUNE AND THEN TABLED THE NEW DEMANDS (OUTLINED IN THE SPREAD SHEET) ON JULY 12.

SECRET

PAGE 09 STATE 181848

12. TACTIC FOLLOWED BY PANAMA IN 13 YEARS OF NEGOTIATION HAS BEEN TO OBTAIN SOME CONCESSIONS FROM US AND THEN STRIVE FOR FINAL AGREEMENT BY SUBMITTING NEW ADDITIONAL DEMANDS. ANNOUNCEMENT OF PANAMANIAN ECONOMIC POSITION AT JULY 29 PRESS CONFERENCE WOULD SEEM TO SET STAGE FOR REPETITION OF THIS PLOY. AS PRESIDENT'S LETTER MAKES CLEAR, UNITED STATES IS NOT IN A POSITION TO MAKE ADDITIONAL SIGNIFICANT CONCESSIONS TO PANAMA.

13. POSTS MAY USE INFORMATION AT DISCRETION OF AMBASSADOR OR CHARGE TO BRIEF HOST GOVERNMENT OFFICIALS PREPARING FOR BOGOTA MEETING. IT WOULD BE USEFUL IF PANAMA'S LATIN AMERICAN SUPPORTERS COULD USE BOGOTA MEETING TO EMPHASIZE TO TORRIJOS AND HIS NEGOTIATORS THAT US HAS MADE MAJOR

CONCESSIONS ON ISSUES OF PRIMARY IMPORTANCE TO PANAMA.  
FURTHER DEMANDS ARE UNLIKELY TO RESULT IN SIGNIFICANT GAINS  
FOR PANAMA AND COULD CAUSE PROTRACTED DELAY.

14. DEPARTMENT WOULD APPRECIATE REPORTS DESCRIBING  
REACTION OF HOST GOVERNMENT TO EMBASSY BRIEFING. CHRISTOPHER

SECRET

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## Message Attributes

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